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Wholesale Electricity Market Design Project

DOE Energy Storage Program Peer Review 2012

Jim Ellison, Verne Loose, Ray Byrne, Cesar Silva Monroy, and Ryan Elliott Sandia National Laboratories

Leigh Tesfatsion lowa State University September 28, 2012





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Introduction - Motivation for a New Market Design



- Need to eliminate market bias of resource classes such as Energy Storage
- Need to accommodate new technologies, without the need to change market rules



- Move away from resource-centric markets toward service-centric markets
- Provide a greater incentive of capital funding for resources that provide needed services

Market Design Problems



- Reserve market rules assume ramp-rate constrained generators
 - Payment for regulation based on capacity
 - 10MW from coal plant and from flywheel resource compensated the same
 - Ability to follow fast signal, or accuracy of following signal, not considered
 - Payment for spinning reserve based on capacity
- Reserve market products are defined in ways that are biased against some newer resources
 - 60-minute regulation reserve duration requirement
 - Carve-outs are being implemented for storage that partially addresses problem
- No compensation for inertia, primary frequency response capability, or reactive power supply capability
 - Could pose a problem as fraction of variable generation grows
- No direct specification of amount or speed of primary frequency response required

What are we doing?



Designing a market that:

- Ensures open access for any resource that can provide services
- Does not require a resource to provide services it can not optimally deliver
- Compensates based on services provided to the grid without the need to partition the market
- Achieves resource adequacy, and meets engineering requirements for a reliable grid
- Achieves economic efficiency
- Supports market reform efforts
- Is implementable in stages; in part or in whole



Market Design Concept



- All energy and reserve products take the form of Energy Forward Contracts (EFCs)
 - EFCs are physically-covered energy obligations and options
 - Energy products take the form of EFC obligations
 - Reserve products take the form of EFC options
- ISO envisioned as a clearinghouse for EFC trades
 - Market participants can buy and exercise EFC obligations, and sell EFC options, but they cannot buy and exercise EFC options
 - ISO buys and exercises EFC options that are backstopped by LSE reserve obligations (so ISO has no financial position)
- EFC trades take place in a sequence of linked ISO-managed forward markets
 - Performance periods range from long term (multiple-year) to very short term (intra-hour)

Market Design Comparison



Old

- System needs are identified
- 2. Markets are partitioned to meet system needs
- 3. Market asks "how much to deliver this"?
- 4. Resources make offers
- 5. Market optimizes a solution

New

- 1. System needs are identified
- 2.Resources state what needs they can offer and at what cost (without regards to market partitions)
- 3. Market optimizes a solution

Project Phases



- Year 1
 - Basic Market Structures and Design Principles
- Year 2
 - Mathematical formulations and optimizations
- Year 3
 - Market modeling in AMES Performance testing of formulations and optimizations, including tests for possible market power manipulation

What have we done?



- Carefully reviewed reserve market procedures in all 7 operating ISOs in the U.S.
 - Often required reading of detailed business practice manuals
- Produced survey paper reviewing reserve market definitions and procedures in all 7 ISOs



- submitted for journal publication
- Discussions with industry experts, consultants, academics



- Formed Technical Expert Committee
 - Experts from ISO-NE, PJM, KEMA
- Identified requirements that an improved market must meet



 Produced a draft wholesale market design paper to be reviewed with Advisory Board

Future Tasks



- Complete draft version of market design report
- Peer review with Advisory committee
- Revise market design based on suggestions of Committee
- Simulate market design using an agentbased test bed
- Make adjustments as required



Questions/Discussion



Contact information

Jim Ellison, PI: jelliso@sandia.gov



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